

## Limiting Collateral Review Damage

NetBank adds scoring solution from CoreLogic to its collateral review process.

**M**eritage Mortgage Corp., the nonconforming lending division of Atlanta-based NetBank (\$4.5 billion in assets), was processing nearly 5,000 loans a month in 2004. But the volume was more than its staff appraisers could handle, so Meritage relied on third-party appraisers to review the overflow at a cost of about \$15,000 a month, according to Chuck Mureddu, NetBank's chief appraiser.

While it's important for appraisers in the subprime market to examine the more-risky properties closely, other properties easily meet acceptable risk standards and don't need a human appraisal, Mureddu asserts. "Our appraisers were becoming nothing more than form fillers," he says. "We were spending significant time with loans we didn't need to look at. We need to spend our time with the higher-risk loans." So the lender started to look at automated collateral scoring tools that would quickly and accurately grade collateral risk in much the same way that human appraisers do -- by analyzing foreclosures, property flips and other factors that are predictive of fraud and loan losses, Mureddu relates.

### 'Accuracy, Reliability and Precision'

After testing one solution in 2004 with disappointing results -- in the test environment, which involved comparing the application's scores with the actual findings of a human appraiser, there was little correlation between the results, according to Mureddu -- Meritage started testing in early 2005 several other collateral scoring tools to identify which solution would best match a human's scores. "We made our decision based on accuracy, reliability and precision," Mureddu says. "It needed to produce the same red flags -- such as geographic locations, external influences (that is, proximity and number of foreclosures), how the market is performing, and mean and median value of the area -- to give us a good picture of what the [local] market is doing."

According to Mureddu, HistoryPro from CoreLogic (Sacramento, Calif.) was the top performer. HistoryPro uses a proprietary assessment engine that evaluates multiple relationships and comparisons among property characteristics, location factors,

pricing and appraisals, as well as local market factors, foreclosure rates and other loan performance indicators. The software then scores a loan's collateral risk.

Meritage augmented HistoryPro with CoreLogic's AVMSelect cascading product, which reviews up to 15 of the country's most-respected automated valuation models with a hit rate of nearly 90 percent, surpassing individual AVMs by at least 15 percent, according to the vendor. The application includes geopreferencing, which ranks AVM selections in the order most likely to deliver accurate valuations for each part of the country. "Different AVMs are stronger in different areas of the country," Mureddu says. "We feel our system is more robust using both products, though some lenders use only one or the other."

Meritage selected the CoreLogic products in July 2005 and installed them on a market-by-market basis over the next six weeks. CoreLogic hosts the Web-based solution, so Meritage didn't need to add any hardware or software to its Microsoft (Redmond, Wash.) Windows-based environment, Mureddu points out. "Installation went very smoothly for us," he says.

By applying CoreLogic's score to each loan and utilizing detailed supporting valuation information, Meritage has streamlined its loan appraisal workflow. Now, 40 percent of the loans skip the manual review process. As a result, Mureddu has reduced the appraisal staff by 30 percent and eliminated the need for third-party appraisers.

With the success its subprime division is having with the CoreLogic products, NetBank has started deploying them for other loans, starting with jumbo loans at the end of spring 2006, Mureddu relates. "We need the same streamlining capability in the conforming arena," he says. "We're also starting to use it for correspondent lending." --Phil Britt

### Loan Processing

\*\*\*Institution: Meritage Mortgage Corp., a division of NetBank (Atlanta).

\*\* Assets: \$4.5 billion (NetBank).

\*\*\*Business Challenge: Streamline collateral review process.

\*\*\*Solution: HistoryPro and AVMSelect from CoreLogic (Sacramento, Calif.).